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No. 89/21

- REORGANIZATION OF FARM CREDIT INSTITUTIONS
- SUPPLEMENTAL ASSESSMENTS - ADMINISTRATIVE COSTS
- PARCELS SPLIT BY REVENUE DISTRICTS

(CHAPTER 560 OF THE STATUTES OF 1988-SENATE BILL 569)

Chapter 560 of the Statutes of 1988 (Senate Bill 569) was chaptered August 26, 1988 and became effective January 1, 1989. This legislation, much of which was chaptered out by Chapters 571 (Assembly Bill 4062) and 1271 (Assembly Bill 2878) amends Revenue and Taxation Code Sections 64, 75.60, and 606 and adds Revenue and Taxation Code Section 259.12.

In this letter we will present in order the amended subdivisions of each affected section in the Revenue and Taxation Code, underlining the new or amended language followed by our comments.

(1) Section 64(b) (first paragraph only) of the Revenue and Taxation Code is amended to read:

"(b) Any corporate reorganization, where all of the corporations involved are members of an affiliated group, and which qualifies as a reorganization under Section 368 of the United States Internal Revenue Code and which is accepted as a nontaxable event by similar California statutes, or any transfer of real property among members of an affiliated group, or any reorganization of farm credit institutions pursuant to the federal Farm Credit Act of 1971 (Public Law 92-181), as amended, shall not be a change of ownership. The taxpayer shall furnish proof, under penalty of perjury, to the assessor that the transfer meets the requirements of this subdivision."

Comments

Sections 1 and 11 of this statute amend and interpret subdivision (b) of Section 64 to exclude, from change in ownership, the reorganization of the farm credit institutions pursuant to the Farm Credit Act of 1971 (Public Law 92-181) for the 1985-86 fiscal year and thereafter.

The Farm Credit System is composed of the Federal Land Bank, the Federal Intermediate Credit Bank, and the Bank of Cooperatives. These agencies are federal instrumentalities that are actually owned by their borrowers. The system is very large and, in an effort to improve efficiency, they are undergoing a reorganization. This is resulting in increased property tax liabilities because the reorganizing entities do not fit within the definition of "affiliated group" in Section 64(b), and the consequent reappraisal increases the base-year value of the property.

This change will help to keep the costs to these agencies at a minimum, thereby increasing the efficiency of the agency which is the purpose of the reorganization.

(2) Section 75.60(a) and (b)(1) of the Revenue and Taxation Code is amended to read:

"(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues which have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

"(b) For purposes of this section:

"(1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal which are incurred by county auditors, assessors, and tax collectors. 'Actual administrative costs' also includes those indirect costs for administration, data processing, collections, and appeal which are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program."

Comments

Section 4 of this statute amends Section 75.60. The section, as amended by Chapter 1457, Statutes of 1986 (Assembly Bill 2890), provided that the county could recover from the proceeds of the supplemental roll the administrative costs up to 5 percent of the additional revenues which have been collected due to the supplemental roll. There is some question as to whether only ongoing revenues are to be used to compute the 5 percent limit or must the county go to the start of the program in 1983 and accumulate all revenues collected to date in making that calculation.

This change clarifies the issue by prescribing that only revenues collected on or after January 1, 1987 will be used in determining the 5 percent.

(3) Section 259.12 is added to the Revenue and Taxation Code, to read:

"The affidavit for the aircraft of historical significance exemption shall show that both the property and the owner meet all the requirements entitling the property to the exemption."

This section of the code becomes effective on January 1, 1989. Please note that Chapter 1271 (Assembly Bill 2878) adds Section 259.11 to the Revenue and Taxation Code and reads exactly the same as Section 259.12, however, it became effective on September 26, 1988. This duplication will eventually be eliminated by corrective or clean-up legislation but until then both sections remain operative.

(4) Section 606 of the Revenue and Taxation Code is amended to read:

"606. When any tract of land is situated in two or more revenue districts, the part in each district shall be separately assessed. However, where the owner of two or more contiguous parcels comprising the tract is identical, and the full value of any parcel is less than two thousand dollars (\$2,000) or that amount which is determined exempt pursuant to Section 155.20 that parcel may be combined with the contiguous parcel with the greatest assessed valuation."

Comments

Section 10 of this statute amends Section 606 to allow the combination of contiguous parcels that have been split by revenue district boundaries where the value of any of the parcels is less than \$2,000, or such amount as is determined exempt pursuant to Section 155.20.

The assessor is currently required to separately assess contiguous parcels split by tax code area boundaries, except when the value of any parcel is less than \$400, in which case the low-value parcel may be combined with the high-

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value parcel. If the county has adopted an ordinance pursuant to Section 155.20 (exempting property with a full value up to \$2,000), then all real property with values between \$400 and \$2,000 that is split by a tax code area boundary is immediately exempted. By making Section 606 coincide with Section 155.20, the assessor will be able to assess those properties by combining the parcels.

(5) Sections 2, 3, 5, 6, 7, and 8 of this statute have no impact on current property tax law because they have been chaptered out by duplicate amendments contained in later enacted Chapters 571 (Assembly Bill 4062) and 1271 (Assembly Bill 2878).

Please note that Section 11 of this statute simply clarifies the amendment of Section 64 of the Revenue and Taxation Code; Section 12 relates to Section 231 of the Revenue and Taxation Code which, as indicated, was chaptered out.

Sincerely,



Verne Walton, Chief
Assessment Standards Division

VW:wpc
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